

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BONN
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AMEMBASSY ROME
AMEMBASSY THE HAGUE
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UNCLAS LUXEMBOURG 0843

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

GENEVA FOR USMTN

E.O. 11652: NA
TAGS: ECON, EMIN, LU
SUBJ: ARBED CHAIRMAN CONFIRMS DECLINING STEEL SALES
AND RISING LOSSES

REF: LUXEMBOURG 0749

1. AT A PRESS CONFERENCE TO REVIEW THE COMPANY'S SITUATION
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AT THE END OF THE THIRD QUARTER OF 1977, THE ARBED BOARD
OF DIRECTORS NOTED THAT PRODUCTION OF STEEL HAS FALLEN
8.3 PERCENT BELOW EVEN THE LOW LEVEL RECORDED FOR THE FIRST
NINE MONTHS OF 1976. THE SLIDE IN STEEL PRICES HAS NOT
BEEN HALTED IN 1977 DESPITE THE ENTRY INFO EFFECT OF THE
DAVIGNON PLAN WITHIN THE EC. ARBED HAS MANAGED TO HOLD
PRODUCTION COSTS TO THE 1976 LEVEL BUT FINANCING COSTS HAVE

RISEN AND THE COMPANY HAS HAD TO BORROW FURTHER ON THE INTERNATIONAL CAPITAL MARKETS. LOSSES FOR THE FIRST HALF OF 1977 REACHED 2190 BILLION FLUX., MORE THAN DOUBLE THE 1046 BILLION LOSS REGISTERED FOR THE SAME PERIOD IN 1976 AND VERSUS A 1339 BILLION LOSS FOR CALENDER YEAR 1976. ACCORDING TO ARBED, EVEN THESE UNPRECEDENTED FIGURES UNDERSTATE DIRECT SALES LOSSES. THE ARBED BOARD SEES NO BRIGHTENING ON THE HORIZON FOR STEEL SALES AND REFERRED TO THE EC COMMISSION'S RECENT 8 PERCENT DOWNWARD REVISION FOR STEEL PRODUCTION IN THE FOURTH QUARTER OF 1977. ARBED EXPECTS NO PRICE STRENGTHENING SO LONG AS LOW-PRICE IMPORTED STEEL FLOWS INTO THE TRADITIONAL MARKETS OF EUROPEAN STEEL PRODUCERS. NO MENTION WAS MADE OF THE U.S. MARKET OR U.S. STEEL INDUSTRY DISCUSSIONS.

2. ACTURAL PRODUCTION STATISTICS WERE 2,850,000 TONS FOR JANUARY-SEPTEMBER 1977 VERSUS 3,110,000 TONS FOR THE SAME PERIOD IN 1976. DELIVERIES OF ROLLED PRODUCTS SHOWED LESS OF A DROP (4.9 PERCENT), FROM 2,311,000 TONS (1976) TO 2,197,000 TONS (1977), BUT ONLY BECAUSE THE COMPANY BUILT UP STOCKS.

3. ARBED FINDS THAT EUROPEAN STEEL COMPANIES ARE ENCOUNTERING DIFFICULTIES SELLING AT DAVIGNON PLAN PRICES WITHIN THE EC. STOCKS AR TOO HIGH TO ENCOURAGE DEALERS AND USERS TO MAKE MAJOR PURCHASES AND THE POSSIBLITY OF BUYING LOW-UNCLASSIFIED

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COST NON-EC STEEL FURTHER RESTRAINS REGULAR BUYERS OF THE EC PRODUCT. THOSE EUROPEAN STEEL COMPANIES WHICH TRADITIONALLY WERE MAJOR EXPORTERS, SUCH AS ARBED, ARE NOW FORCED TO TURN TO THIRD COUNTRIES TO DISPOSE OF THEIR STEEL PRODUCTS AT NON-PROFITABLE PRICES MERELY TO MAINTAIN PRODUCTION. (IN THIS CONNECTION, AN ARBED EXECUTIVE BOASTED HUMOROUSLY TO ECONOFF OF A RECENT SALE TO HONG KONG "IN JAPAN'S BACKYARD," ALTHOUGH THE DELIVERY WAS SYMBOLIC RATHER THAN LUCRATIVE.)

4. ARBED SEES LESS HOPE NOW THAN AT THE END OF 1976 FOR A RETURN TO EQUILIBRIUM INTHE EUROPEAN STEEL INDUSTRY. THE PROBLEM OF LOW-COST IMPORTS, WHICH REFLECT EUROPEAN STEEL'S LOSS OF COMPETITIVENESS VIS-A-VIS THE JAPANESE AND NEW EXPORTING NATIONS, IS BECOMING INCREASINGLY SERIOUS. SIMULTANEOUSLY, THE RESTRUCTURING OF THE EUROEPAN STEEL IDUSTRY--BY REDUCING CAPACITY AND IMPROVING PRODUCTIVITY--IS SLOW GOING AND REQUIRES MAJOR FINANCING. LOW SALES LEVEL, REDUCED INCOME AND SERIOUS LOSSES AND THE SCALE OF INVESTMENT NEEDED FOR RESTRUCTURING COMBINE THE THREATEN THE MODERNIZATION PROGRAMS OF THE EUROPEAN STEEL COMPANIES. FOR ITS PART, ARBED HAS INITIATED A CRISIS PLAN WHICH OF NECESSITY CENTERS ON REDUCITNG PRODUC-

TION COSTS BY (1) THE MAXIMUM INSTALLATION OF NEW EQUIPMENT WITHIN THE COMPANY'S FINANCIAL MEANS; AND (2) SWIFT REDUCTION OF PERSONNEL. FROM 1970 TO 1976 ARBED INVESTED 18.7 BILLION FLUX IN ITS LUXEMBOURG WORKS, AND 4.1 BILLION MORE ARE BEING INVESTED THIS YEAR.

5. COMMENT: ALTHOUGH NOTHING UNEXPECTED WAS SAID, THE PRESS CONFERENCE GAVE ARBED THE OPPORTUNITY TO REMIND THE GOVERNMENT AND LABOR UNIONS THAT ITS "SURVIVAL PLAN," WHICH IS PREMISED ON NEW INVESTMENT AND REDUCTION IN EMPLOYMENT, IS THE ONLY WAY IT CAN "CROSS THE DESERT" OF PERSISTENT LOW PRICES. ARBED ALSO STATED THAT IT WAS "INEVITABLE" THAT THE STEEL INDUSTRY WILL NO LONGER BE LUXEMBOURG'S MAJOR EMPLOYER. THE STEEL GROUP HAS RECENTLY UNCLASSIFIED

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LAUNCHED A CAMPAIGN TO ATTRACT FOREIGN INVESTMENT TO THE GRAND DUCHY (SUBJECT OF SEPTEL), BOTH TO PROVIDE EMPLOYMENT FOR ITS UNNEEDED WORKERS AND TO ASSIST IN FURTHER DIVERSIFICATION OF THE ECONOMY. THE BOARD VOICED CONFIDENCE IN ARBED'S FINANCIAL STRENGTH TO SURVIVE DESPITE SEVERE LOSSES SINCE 1975, BUT FOCUSED ON TWO MAJOR RISKS FOR THE EUROPEAN STEEL INDUSTRY, NAMELY (1) THAT SOME COMPANIES WILL COLLAPSE FOR FINANCIAL REASONS BEFORE THE NEXT EXPECTED UPSWING IN STEEL; AND (2) THAT THE CONCEPT OF FREE ENTERPRISE MIGHT BE COMPROMISED DURING THIS CRISIS AND THAT THE EUROPEAN STEEL INDUSTRY BE REDUCED TO A SUPPORT FOR OTHER INDUSTRIES, OR WORSE, BECOME A NATIONAL ANTI-UNEMPLOYMENT AGENCY. LOWENSTEIN

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